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UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL ADJUSTMENT ADMINISTRATION

AAA

THE NEW FARM ACT

A SHORT SUMMARY OF THE PROVISIONS OF THE AGRICULTURAL ADJUSTMENT ACT OF 1938

In the Agricultural Adjustment Act of 1938, Congress declared the purposes of the new national farm legislation to be:

To conserve the Nation's soil resources and use them efficiently.

To assist in the marketing of farm products for domestic consumption and export:

To regulate interstate and foreign commerce in cotton, wheat, corn, tobacco, and rice, so as to—

Minimize violent fluctuations in supplies, marketings, and prices of farm commodities;

Protect consumers by maintaining adequate reserves of food and feed; and

Assure farmers a fair share in the national income.

These purposes are for the benefit of agriculture and for the welfare of the entire Nation.

The Agricultural Adjustment Act of 1938, approved February 16, provides for a farm program open to participation by all farmers in the United States.

One part of the Act strengthens and continues those provisions of the Soil Conservation and Domestic Allotment Act under which about 4 million farmers took part in the agricultural conservation programs of 1936 and 1937. These provisions will be available, as in the past 2 years, to every farmer. They authorize continued payments to farmers who take part in the agricultural conservation program.

Another part of the new Act supplements the conservation programs with provisions for regulating interstate and foreign commerce in the five commodities listed in the Act—cotton, wheat, corn, tobacco, and rice.

GENERAL OBJECTIVES OF THE ACT

Both parts of the Act are designed to safeguard the productiveness of agriculture. All payments are to be conditioned upon participation in measures for soil conservation. Both parts of the Act are designed to stabilize commerce in agricultural products and to give farmers a fair share of the national income.

Broadly summarized, the provisions of the Act are seen to give the basis for a 6-point program designed to assist farmers to produce

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abundantly year after year. They are designed to protect agriculture against the price collapses that heretofore have penalized heavy production. The Act provides actual methods such as acreage allotments, marketing quotas, and commodity loans, to help give the stability of income that farmers need in order to grow and to maintain ample reserves of farm commodities for the Nation's use. In effect, this means that an Ever-Normal Granary will be started. It is estimated that the Act's provisions affecting reserve supplies will result in about doubling the average annual carry-overs of corn and wheat.

This 6-point program may be outlined as follows:

1. The A. A. A. soil-conservation program is continued and its objectives established as a part of permanent farm policy in the interests of future abundance of food and fiber.
2. National acreage allotments are set at levels to give production ample for domestic consumption, for exports, and for reserve supplies, and payments are made to encourage farmers to produce up to these allotments.
3. Systematic storage of food and feed surpluses from big crop years for use in years of shortage is assisted by loans.
4. Marketing quotas for commercial producers of cotton, wheat, corn, tobacco, and rice, backed by penalties on sales in excess of the quotas can be used, subject to approval of two-thirds of the producers voting, to obtain general participation of farmers in a program designed to hold surplus supplies of the five listed commodities off the market until they are needed.
5. Release of supplies withheld from market under marketing quotas is provided to meet any shortage.
6. Crop insurance for wheat, starting with the 1939 crop, will give wheat producers and bread consumers better protection against crop failure. Gradual accumulations of wheat paid in by farmers as insurance premiums will contribute to the Ever-Normal Granary supplies.

REFERENDUM PROVIDED

An essential point in the new Farm Act is the fact that when excessive supplies pile up, producers themselves have the final say through a referendum as to whether marketing quotas for the five listed commodities are to be used or not.

In years when surpluses call for use of marketing quotas, the referendum must be held soon after the quotas are announced. If two-thirds of the producers voting favor the quota, it will be used, but if more than one-third of the voters oppose the quota, it will not go into actual operation.

The Act provides that the A. A. A. farm program in 1938 will be carried on locally through the existing community and county committees that have performed this function in the A. A. A. soil-conservation programs of 1936 and 1937. In the future slight changes will be made in the method by which farmers in county associations choose the local and county committees. Local administrative areas are to be established within counties. Participating farmers in each area will elect local committeemen, and also choose a delegate to a county convention. The county convention will elect the county committee. The county agricultural extension agent will be, ex officio, a member

of the county committee, without a vote, and may be selected by the committee as its secretary.

In each State there is to be a State committee consisting of not more than five and not fewer than three farmer residents of the State, with the State Director of the Agricultural Extension Service, ex officio, an additional member.

FARM INCOME PROTECTED

Protection of farm income is a vital purpose of the new Farm Act. It seeks to give farmers a larger and steadier share in the National income. Specifically the Act affords farmers the following measures of income protection:

Payments to farmers who cooperate in the A. A. A. program.

Additional "parity" payments, if at some future time funds over and above the present authorization of $500,000,000 annually should be made available.

National acreage allotments that encourage plantings in line with domestic demand, foreign markets, and ample carry-overs, and that avoid sudden and extreme acreage shifts.

Storage loans to enable farmers to carry over unusually large supplies until the market needs them and they can be sold at fair prices.

Marketing quotas, together with the storage loans, to hold unusual surpluses out of glutted markets and to protect the value of commodities.

Provisions in the new Act are designed to give additional protection to small farmers, to define the basis for dividing payments between tenants and landlords, and to apportion funds among the different commodities.

They prescribe specific increases in all soil-conservation payments up to $200. The smaller the payment, the greater the increase provided. The effect of these provisions is to take sums sufficient to make possible the increases in small payments from the funds available for all payments, before the money available is distributed.

Beginning in 1939, a limit of $10,000 will be placed on individual payments.

Payments are to be divided between landlord and tenant in proportion as they share in the crop, except that payments for soil-building practices are divided in the proportion in which landlord and tenant contribute to carrying out the practices.

Funds available for payments will be divided among crops on the general basis of their average acreages and average value in the past, and the extent of the adjustments being required.

The Act contains a specific provision designed to protect dairy, livestock, and poultry producers against increased competition arising from changes in land use under the program. In general, the Act is also expected to help these producers by decreasing the likelihood that low prices will drive producers of corn, wheat, cotton, etc., into competition with them.

National Acreage Allotments are established for corn, wheat, and rice, and, under the Soil-Conservation and Domestic Allotment Act, for tobacco. The national allotments will be divided among the States producing these commodities. The State allotments will be

divided among counties, and the county allotments among individual producers. The National cotton allotment (in bales) will be converted into acres and divided among States, counties, and individual farmers. All county allotments will be apportioned among individual farmers through the local and county committees.

Marketing and Storage Quotas for the five listed commodities can become effective only when supplies exceed normal by amounts definitely specified for each commodity, and then only when approved in a producers' referendum. The supply levels which must be exceeded before quotas can be put into use include reserves and carry-overs larger than the usual reserves and carry-overs. Sales in excess of marketing quotas are subject to a penalty per pound or per bushel. The penalty, together with loans on stored commodities, protects farmers who wish to hold products in storage when markets are becoming glutted and prices are threatened with collapse. The marketing-quota provisions apply to all producers.

Methods of using the marketing quotas vary among commodities. General procedure calls for determining, before the opening of the marketing year, whether the total supply of the commodity available for the coming year will exceed normal consumption and market requirements, plus carry-over.

The Act requires that all acreage allotments and marketing quotas be kept available for public inspection, and sets up a system of local committees for reviewing the quotas of any farmers who are dissatisfied and appeal for a review.

All quota provisions are subject to termination in a national emergency, and must be adjusted or suspended to meet shortage in domestic supplies or increases in exports.

Commodity Loans on any agricultural product (including dairy products), to be made through the Commodity Credit Corporation on the security of the commodities themselves, are authorized.

The Corporation is directed to make loans on corn, wheat, and cotton, when supplies rise above specified levels or prices fall below specified levels. Rates to cooperating farmers for loans on corn, cotton, and wheat range from 52 percent to 75 percent of parity. This range permits loans high enough to put a plank under prices to prevent their collapse, but not so high as to keep our products from competing for export markets. The rate to noncooperators on that part of their crop that would be subject to penalty if marketed is 60 percent of the rate available to cooperators.

The Government's investments in the loans are protected by having marketing quotas available to prevent the dumping of surpluses and the wreckage of prices. If the use of a marketing quota for any year is prevented by opposition of more than one-third of the producers voting in the referendum, no loan on that commodity can be made until the beginning of the next marketing year.

NEW PROVISIONS FOR THE FIVE LISTED COMMODITIES

Following is a summary of the current situations and the way the new provisions of the Act apply to cotton, wheat, corn, tobacco, and rice.

Cotton.—The Act applies directly to problems that continually face cotton growers. Some 10 million farm people, on 2 million farms in the South, depend on cotton as their chief source of income. So do several million other workers on railroads, in cotton gins, and in the textile mills. From one-third to one-half of the United States cotton crop usually is exported. The 1937 cotton crop here and abroad was the largest in history, and the world supply for the marketing year 1937–38 is the greatest on record. The price of cotton is set in the world market and now is low.

Under the Act a national allotment is to be announced each year in terms of the number of bales needed to make a normal supply available during the next marketing year. The allotments for 1938 and 1939, however, must be between 10 and 11½ million bales.

The Act specifies how the bale allotment is to be divided among the growers. In general, it is to be apportioned among the States according to past production. Each State allotment (converted into terms of acres) is then to be apportioned among the counties according to past acreage. The county allotments are to be given to farmers primarily on the basis of tilled acreage not used for tobacco, wheat, or rice. Provision is made for minimum allotments to small farms.

A marketing quota is to apply, subject to final veto in a referendum, during the next marketing year whenever the total supply of cotton is found to be more than 107 percent of the normal supply, a total of about 19½ million bales. This year the referendum has been set for March 12. The marketing quota for any farm will allow the marketing of all cotton produced on the farm's acreage allotment.

A penalty of 2 or 3 cents a pound, depending on the year of production and the year of marketing, will apply to cotton marketed in excess of the quota, except that no penalty is to apply to long-staple cotton or to cotton from any farm with an acreage allotment which produces less than 1,000 pounds of lint cotton.

Wheat.—The new Farm Act recognizes that the wheat farmer faces two chronic dangers. One is the risk of crop failure. This overtook him with successive short crops from 1933 to 1936. The other is the danger of tremendous surplus. Accumulation of successive surpluses without export outlets buried the farmer in 1932 under a mountain of 35-cent wheat.

The present situation is this: Wheat production in 1937 totaled 874 million bushels. Domestic consumption, plus limited wheat exports, will probably leave a carry-over on July 1 of more than 200 million bushels. Wheat plantings for harvest in 1938 are expected to be close to record levels. Meanwhile, drought has been foreshadowed by dust storms in the Southwest. Right now the wheat farmer does not know whether this year he will be the victim of drought or of surplus, or whether he will escape both for another year.

Under the Act a national wheat acreage allotment is to be announced every year. It is to be such as will normally make available for market a supply equal to 130 percent of a normal year's domestic consumption and exports, a total of about 910 million bushels. The allotment for 1938 is set by the Act at 62½ million acres.

This national allotment is to be apportioned among the States chiefly according to past acreage, among the counties on a similar basis, and among producers on the basis of tillable acreage, crop-rotation practices, type of soil, and topography.

A marketing quota for wheat is to apply, unless disapproved in the referendum, during any marketing year when the estimated total supply is more than 135 percent of a normal year's domestic consumption and exports (a total of about 950 million bushels). The quota must make available for market 130 percent of normal needs, less the estimated carry-over and the wheat needed for seed and livestock feeding during the year. In general, the quota for any farm is to be the normal yield of a "marketing" percentage of the acreage allotment, plus any nonpenalty wheat held over from previous years. No quota is to be applied in any year to a producer whose acreage that year, with normal yields, would produce less than 100 bushels.

The penalty for marketing in excess of a quota is 15 cents a bushel.

Under special provision in the Act, no quota is to apply in 1938 unless before May 15 provision has been made by law for payment in whole or in part in 1938 of parity payments on wheat.

Crop Insurance for Wheat is one of the most significant parts of the Act. It inaugurates the first Federal crop-insurance program in this country. It provides insurance for the wheat farmer against loss through crop failure and forecasts eventual extension of the plan to other commodities.

It creates the Federal Crop Insurance Corporation to carry out the crop-insurance provisions. Commencing with the wheat crop planted for harvest in 1939, the Corporation is authorized to insure wheat producers against loss of yield. Since amounts of losses are calculated in terms of wheat, the protection is given against losses of yield rather than price declines. The insurance applies to losses of yield resulting from drought, flood, hail, or other weather hazard, and from insect pests and plant diseases.

Such insurance will cover not less than 50 percent nor more than 75 percent of the average yield of wheat on insured farms. Insured farmers will be paid the amount of actual wheat, or its cash equivalent, by which their yields in short crop years fall below the insurance coverage.

The Corporation will fix premiums which, like claims, are payable either in wheat or in its cash equivalent on the date due. The rate of these premiums will be determined on the basis of the average losses in yield, over a representative period, on the insured farm and on all farms in the county.

The wheat premiums will gradually accumulate as a part of the Ever-Normal Granary supply of wheat. Under average conditions, such accumulations may in time total from 50 to 100 million bushels, if farmers participate generally in the crop-insurance plan.

Corn.—The new Farm Act treats corn as a basic source of food for the Nation. It recognizes the importance of corn as a feed crop. About 88 percent of the corn crop is fed to livestock and reaches the consumer in the form of livestock products. Extreme swings in corn production and marketing upset the balance between feed supplies and supplies of livestock, and lead, within a season or two, to extreme fluctuations in supplies and prices of livestock products.

The 1937 corn crop of more than 2,640,000,000 bushels was larger than average and nearly double the small crop of the drought year of 1936. Grain-consuming animals on farms at the beginning of

1938 were 10 percent fewer than average because of the small feed crops of the drought years.

Large supplies of corn and low corn prices tend to cause over-expansion of livestock production. When corn supplies are again reduced, excessive numbers of livestock are marketed at low prices. This depletes livestock on farms and later brings about sharp increases in retail prices for meat, poultry, and dairy products.

Under the Act, an annual corn acreage allotment will apply only to corn produced in the commercial corn-producing area, which lies principally in the Corn Belt. It must allow for such an acreage as, with average yields plus the amount of the corn carry-over, and of production outside the commercial area, will make available for market a supply equal to 110 percent of a normal year's domestic consumption and exports (a total of about 2,600,000,000 bushels). This allotment is to be apportioned among States and counties principally according to past acreages, and among farmers on the basis of tillable acres, crop-rotation practices, and nature of farm land.

A marketing quota is to apply in the commercial area, unless voted down in the referendum, during any marketing year when the estimated total supply exceeds 110 percent of the normal supply (a total of about 2,800,000,000 bushels). It must make a normal supply available for market. Most of the remaining ear-corn is to be stored and withheld from market until a need develops on the farm, in the county, or in the country, when provision is made for its release.

Corn marketed in excess of marketing quotas in effect for the farm is subject to a penalty of 15 cents a bushel.

When a referendum on corn-marketing quotas is held it will be in the latter part of August or in early September.

Tobacco.—The Act applies to six different kinds of tobacco, each divided into types, and each handled largely as a separate commodity because its problems differ from the problems of the other kinds. For example, the supply of flue-cured tobacco on hand in the United States July 1, 1937, was 1,733,000,000 pounds, the largest in history, and 180 million pounds above the level of the previous year. Despite favorable demand, continued production of flue-cured tobacco at a level above consumption would soon mean unfavorable prices for growers. Supplies of cigar-filler and cigar-binder tobacco, on the other hand, are not excessive, and present production does not appear likely to result immediately in a bad price situation.

Quotas are provided for the quantity of any kind of tobacco marketed. The only acreage allotments will be those established under the Soil Conservation and Domestic Allotment Act.

When the supply is more than 105 percent of the normal supply, a quota permitting the marketing of the normal supply is to be effective in the next year, subject to a referendum. In the case of burley, fire-cured, and dark air-cured tobacco, quotas are to apply during any current marketing year as well as the next year when the supply is more than 105 percent of the reserve supply (approximately 110 percent of the normal supply). Referenda for producers of flue-cured, fire-cured, and dark air-cured tobacco are to be held this year on March 12.

In general, the quotas are to be apportioned among the States according to past production and among farmers according to past marketing, production facilities, and crop-rotation practices.

The penalty for marketing in excess of a quota will be 50 percent of the market price but not less than 3 cents per pound for flue-cured tobacco and not less than 2 cents for other kinds of tobacco.

Rice.—The present supply of rice grown and on hand in the United States is the largest on record. Rice production in 1937 was 53 million bushels, more than 10 million bushels larger than the average in the 5-year period 1928–32. Rice farmers have been unable, without the help of the Federal Government, to organize effectively for orderly marketing to avoid recurrent glutting of markets.

An *acreage allotment* that, with average yields, will make available for market a normal supply, and a *domestic allotment* equal to the estimated amount needed for domestic consumption, are to be announced not later than December 31, of each year.

The acreage allotment is to be divided among States chiefly on the basis of past acreage, and among producers according to past production, production facilities, and crop-rotation practices. The domestic allotment is to be apportioned among both States and producers according to past production.

A quota permitting the marketing of a normal supply is to be applied, unless vetoed in a referendum of producers, when the total supply is more than 110 percent of a normal supply. The quota is to be apportioned among growers on the same basis as the domestic allotment.

The penalty for marketing in excess of a quota is ¼ of a cent per pound.

The Act specifies that no quota is to be in effect during the marketing year beginning August 1, 1938.

OTHER PROVISIONS

The Act authorizes the Secretary of Agriculture to prosecute or participate in any freight-rate case before the Interstate Commerce Commission that affects the public interest in the transportation of farm products.

It extends the time of operation of the Federal Surplus Commodities Corporation to June 30, 1942.

It limits to 25 percent of the total the amounts of money that may be devoted to any one commodity under "section 32" of the Act of August 24, 1935, which appropriated 30 percent of annual customs receipts to be used for surplus purchases, and to stimulate domestic consumption and exports.

It authorizes the establishment and maintenance of four regional laboratories to develop new uses and markets for farm products, and allocates not over $4,000,000 annually for this purpose.

It requires a report to Congress each year giving the names of persons receiving total payments exceeding $1,000 for that year.

It defines the compliance with the 1938 farm program required to obtain price-adjustment payments on the 1937 cotton crop; it authorizes transfer to the Commodity Credit Corporation of title to cotton from the 1937 crop on which the Corporation has made or arranged for loans; it limits the amounts and sale price of the 1937 cotton to which the Corporation acquires title; and extends the maturity date of notes held by the Corporation and secured by 1937 cotton.

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